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TREASURY FOR OASIA
STATE PASS TO USTR FOR WEISEL
STATE PASS TO FEDERAL RESERVE SAN FRANCISCO FOR DAN FINEMAN
STATE PASS FEDERAL RESERVE NEW YORK FOR MATT HILDEBRANDT

E.O. 12958: N/A

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SUBJECT: THAILAND'S NEWLY APPOINTED MINISTER OF FINANCE

SENSITIVE BUT UNCLASSIFIED HANDLE ACCORDINGLY

11. (SBU) Summary. In a meeting with visiting Regional Finatt and Econoff, Dr. Chalongsob Sussangkarn, President of economic think-tank Thailand Development Research Institute (TDRI) and newly appointed Minister of Finance, said that his priorities in office would be to strengthen the monetary and fiscal systems in Thailand and improve investor confidence, particularly foreign investor confidence. He opined that the imposition of capital controls was too broad, but implied that more targeted controls could be a tool to help middle-income countries deal with the large inflows of capital they are experiencing. He said he opposes the proposed amendments to the Foreign Business Act and will voice his opposition to them in cabinet although it is an issue that lies outside his portfolio. Chalongsob stated his key priorities as being monetary and fiscal reform to reduce opportunities for corruption and better assure sustainable development of the economy. End Summary.

Restoring Thailand's "foreign friendly" reputation

12. (SBU) Dr. Chalongsob said the previous finance minister had created an "anti-foreigner" perception which he hoped to reverse. He asserted that Thailand's main comparative advantage in the region was that it was "foreign friendly" due to its lack of a colonial history and therefore had "no fear" of foreign influences or need to favor one foreign group over another. This advantage, he implied, was being lost through recent policies pursued by the present government.

13. (SBU) With regard to the Foreign Business Act (FBA) changes, Chalongsob said it was too broad to address the "gaps" in the telecom sector where the real problems were selling "monopoly" assets inappropriately. While he said he does not have direct responsibility for telecoms or the FBA, he promised that he would be "a voice in the cabinet" arguing against excessively anti-foreign investment measures.

14. (SBU) On capital controls, Dr. Chalongsob reiterated the views published by TDRI that the measure was too broad an instrument to address the capital inflow problems. He lamented the lack of monetary policy experience of BoT Governor Tarisa, pointing out that "she is a regulator" and "still learning about monetary policy." He noted that countries do need capital controls, but that there are "no clear answers" nor "one easy solution." He stated that most important are to not create a "major shock" and for the solution to be "appropriate." He noted that many middle income countries are searching for a solution on how to deal with strong foreign inflows.

15. (SBU) Chalongphob related that at a recent academic conference in Madrid where he presented, non-Asian countries such as Turkey were inquiring about Thailand's experience with capital controls. He was not optimistic, however, that either the ASEAN Plus3 Finance Ministers or the EMEAP central bankers group showed enough promise of coordination to be used as effective tools for pressuring China (or Japan) to have more flexible currencies. In previous discussions with Econoff, Dr. Chalongphob has said that he believes some form of capital controls are necessary and proposed a form of capital gains tax on profits earned from foreign inflows.

16. (SBU) Finatt emphasized the importance of improving communication with market participants to prepare them for changes such as capital controls and to ensure that the broadest range of policy options had been considered appropriately before such draconian measures are adopted. He agreed that "managing market psychology" was something that needed improvement, particularly cited BoT language last November and December that led to the perception of a "one-way bet" on the Baht that exacerbated the appreciation of the currency.

Priority to put in place good systems for economic policy

17. (SBU) Dr. Chalongphob identified his first priority as "improving the system of monetary and fiscal policies" in Thailand. He particularly highlighted the need to close "loopholes" on megaprojects to ensure that the laws and regulations regarding careful evaluation were followed properly so as to avoid abuse. While noting the importance of public private partnership, he thought that transparency of the contingent liabilities embedded in these projects was important to prevent their abuse by "populist policies." He noted that only with more transparent data could an "early warning system" be developed to address inappropriate risks. Dr. Chalongphob did not respond to a question from Econoff about whether this would include addressing the contingent liabilities of the state financial institutions, such as the government's housing bank.

The politics of prioritization and perceptions of conflicts

18. (SBU) Dr. Chalongphob acknowledged the back up of proposed legislation at the Council of State due to the many pet projects of various ministries trying to pass laws during the period of the interim government. Chalongphob said that he would be working with Deputy Prime Minister for Economy (excepting finance) Kosit to prioritize the various proposed laws; acknowledging that there seems to be no prioritization currently. While mainly focusing on the fiscal side, he said he would want to review the Bank of Thailand Act --- that would improve the independence of the central bank --- to ensure that he could support it and justify it to parliament in the future. Note: The previous finance minister who approved the BoT Act had served as its governor as well, which may have created some perception of potential bias. DPM Kosit hails from Bangkok Bank, one of Thailand's top private banks, and will have to tread carefully to avoid conflicts of interest. Kosit's background - and presumed desire to return to the banking industry - explains why finance was excluded from his portfolio and why Dr. Chalongphob will report directly to the Prime Minister rather than through Kosit like the other economic ministers. End Note.

Less focus on pushing bureaucracy to disperse fiscal stimulus

19. (SBU) Embassy contacts have recently emphasized the importance of rapid disbursement of this year's government budget to stimulate the moribund domestic economy. They note that one year's budget must be disbursed in only 9 months since the budget was passed three months late and that bureaucrats are proving reluctant to push things along for fear of punishment if a later government finds any suggestion that the rules for disbursement were not stringently adhered to. The fiscal stimulus is seen as particularly important for economic growth given weak consumer and investor confidence and pressure on exports from the stronger currency. In response to our question about this problem, Chalongphob simply said the bureaucrats

would do their job.

¶10. (SBU) Comment: Dr. Chalongphob seems to be a well-meaning academic with the best of intentions for developing better systems for future economic policy management. However, he has never worked in government (or the private sector) and may not have the political and bureaucratic skills to push through things vital for short term economic growth such as fiscal spending on mega-projects. He does seem intent on reversing anti-foreign sentiment and taking a more sympathetic position on the concerns of foreign investors; but how the large nationalist grouping in cabinet will react to this is uncertain. The role and influence of Deputy Prime Minister Kosit versus that of the new Finance Minister will also have to be carefully monitored. With the departure of Pridiyathorn as economic czar, the new chief policy-maker job would seem to be open. We hope that Chalongphob's investor-friendly views prevail. He

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